Santander

Think Investments

Summer 2020

Together with Santander Asset Management

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments.

Let me start by wishing you and your loved ones health and wellness as the world comes to terms with the Covid-19 pandemic. As we move through 2020, our choices as people, consumers and investors will be forever changed and to me, the idea of sustainability feels more important than ever.

There's sustainability in the sense of encouraging good social and corporate practices as well as in managing climate change. Sustainability is something we take very seriously at Santander.

We take day–to-day practical action like supporting you to go paper-free. We're committed to the United Nations' Principles for Responsible Banking. The Santander Group, as a whole, are supporting sustainable investment indices from the Dow Jones and FTSE. And we're members of the world's largest corporate sustainability initiative, the United Nations Global Compact.

But there's also sustainability in the sense that investing is for the longer term. That's easy to talk about in theory but can be tougher to live out in practice. The Covid-19 pandemic will have highlighted that to many of us. It's brought turmoil and downturn to markets as well as disruption to our personal lives.

So, it's the longer term we focus on in this edition of Think Investments. From how your Investment Hub service can support you on your investing journey in all market conditions, through what history teaches us about downturn and recovery, to how investment professionals make informed choices with the longer term in mind.

James Dunne

James Dunne
Head of Wealth Management
Santander

Making the most of the Santander Investment Hub

Your Investment Hub is the online home for your fund investments. It puts you in control of your investing journey, from checking performance to making new investments.

Keeping track of your investments, giving them the once over at least every year to check they are still right for you, is an important part of investing for the longer term.

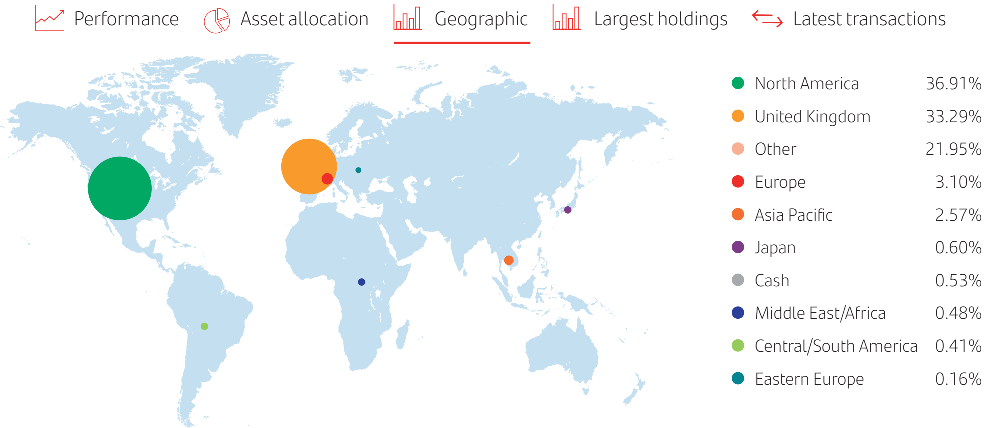
Having facts and figures easily to hand can help you stay focused on progress towards your goals during all the market ups and downs you can expect along the way.

You can check the daily valuations of your investments, any time on your Investment Hub. You can find the Investment Hub on your Online Banking home page. Just log on and select 'Investment Hub'. If your investments are not visible straight away click on 'Add, remove or rename an account'.

Keeping track

From your Investment Hub summary page, you can access all sorts of useful information. That includes the latest value of your investments, at a glance.

You can also read important documents like your statements and your Investment Hub Terms and Conditions and Key Features Document, which can be found in your document library. You can review your latest transactions. And, you can explore the details of how your investments have been performing and how they are split between different types (like shares and bonds, for example) and geographic locations.



Taking action

It's not just about keeping track. You can use the Investment Hub to take action too.

Transact

- Buy, switch or sell investments when it's convenient for you.
- Set up lump sum and regular payments into and out of your accounts.
- Invest in a Stocks and Shares ISA and/or an Investment Account.

Manage

- Set up and amend your investment Direct Debits.
- Move investments you have elsewhere into the Investment Hub.

Stay safe

- Update your phone number, address and other personal details.
- Update your security settings (for example your password).

Choose to go paper-free

- Reduce the amount of paper we send you and select to go paper-free. All the Investment Hub documents will be in your document library.

Support for you

When you log on to the Santander Investment Hub you can click 'help' on any page to find guides and videos. If you're unfamiliar with the Investment Hub these will help you make the most of it.

If you'd like to use the Investment Hub but aren't signed up for our Online Banking service yet, that's simple to do. You can sign up at **santander.co.uk** if you have a banking or savings account with us and a mobile phone.

Forgotten your Online Banking log on details?

You can reset these by clicking on 'forgotten your details or unable to log on' on the log on page on **santander.co.uk**. You'll need your account number and the mobile phone which is registered to your Online Banking.

Lessons from history

The impact of this year's Covid-19 pandemic is a powerful reminder that investment markets can go down as well as up. But it's how you deal with those downs that matters in the longer term.

For anyone who started their investing journey in the past decade, the sharp global economic downturn and steep market falls triggered as the pandemic took hold may have been an unfamiliar and uncomfortable experience. Covid-19 came seemingly from nowhere and has affected markets all over the world.

But whatever triggers them, ups and downs are an unavoidable part of the journey, reflecting the fact that markets and economies run in cycles. Here we look at some facts and figures to put things into context.

Knowing what comes next

Between December 1854 and summer 2009 there were 33 cycles, according to the US National Bureau of Economic Research.[1]

From 2009 we were in the expansion stage of a new cycle after the 2008 financial crisis. Through ripples caused by political events like Brexit and the US/China trade conflict, this expansion broadly continued despite many predictions a peak was due. With the impact of Covid-19 have we now passed through the peak and entered a new contraction phase? It certainly feels that way. But while there are no certainties with investing and past performance isn't a guide to future performance, history does suggest we can be reasonably confident that a trough and expansion will also come again.

The four stages of a cycle

1. **Peak**
   The economy hits a high point.
2. **Contraction**
   Growth in the economy is going down.
3. **Trough**
   The contraction comes to an end.
4. **Expansion**
   The economy is on the up again.

[1] NBER. US Business Cycle Expansions and Contractions

Investing and the cycle

Different stages of the cycle are generally better for different types of investment. For example, shares may fall out of favour as the cycle is contracting. Investments like gold, cash and government bonds may be more popular then. But shares tend to regain popularity quickly. That's because investors want to buy them at lower prices in hopes of benefiting when the recovery or expansion comes.

It's useful to have an idea of how investments behave as market conditions change. But for long-term investors, it's even more useful to keep an eye on the big picture. Because although it might be tempting to try and invest in a way that anticipates or reacts to market developments, it can be a risky strategy.

Time in the market

Current conditions from the Covid-19 pandemic are unprecedented and their longer-term consequences for global markets are unknown. As we've already noted, past performance isn't a guide to future performance and while history does suggest recovery will come, we can't be certain what that recovery will look like and how long it will take.

What that means for you as an individual will always depend on your personal circumstances, including how much risk you are willing and able to take and how long you have left to meet your investing goal.

As a general rule of thumb though, keeping your money invested through downs as well as ups is a better approach over the longer term. To understand why, think back to the financial crisis of 2008. An investor who made a short-term, reactive, decision to take their money out of markets then may have felt justified by the markets' losses that year. But after a while they may have come to regret it.

Staying invested through downturns can also have other benefits if you're a regular fund investor. Your money can buy more shares or units in a fund when prices are low, helping you to benefit more when prices rise.

An emotional rollercoaster

So being patient during downturns is often the most rational approach. There is one problem with that picture, however: we're not always rational. As investment guru Benjamin Graham once said, "the investor's chief problem – and even his worst enemy – is likely to be himself".[2]

An example for illustration

If you'd put a lump sum into a fund that tracked one of the main US investment indices, the S&P 500, at the start of 2008 it would have started performing well. Then, following the collapse of Lehman Brothers investment bank in September 2008, it would have fallen steeply and ended up down by almost 40% after one year. But, by the end of 2012 it would have recovered.

While there have been more ups and downs since, it may well have taken longer to recover your losses if you'd sold your investment at the end of 2008.

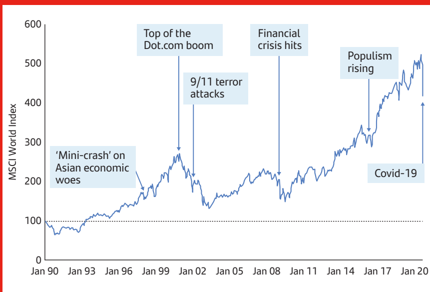
Source: S&P 500 historical annual returns, www.macrotrends.net

That is particularly the case when markets fall and knee-jerk decisions to sell can have the potential to undo years of good work. Even though history also shows that stock market-based investments are more likely to produce better returns than cash savings over the longer term. Part of the battle is being aware that emotions risk getting in the way of rational investment decisions. Getting professional support from someone with the skills and experience to navigate choppy markets can be very helpful too.

Taking the long view

This chart shows the performance of the MSCI World Index* from 1990, to when the impact of the Covid-19 pandemic first took hold on global markets in March 2020. Some key events during that time are highlighted. It underlines again that shocks and downturns are almost always followed by recovery and growth. In other words, it's time in the market that matters more than anything else.

Past performance is not a guide to the future.



Data source: FE fundinfo 2020. MSCI World Index (GB Pounds).

*The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets.

2 Quoteswise.com – Benjamin Graham Quotes

Article provided by Santander Asset Management UK for Santander investment customers.

Looking to the future

Curiosity about the future can serve investors well. Especially when it comes to identifying themes and trends that influence where our world is headed in the longer term.

For individual fund investors, having some knowledge of the big themes and trends is often about taking an interest in how their money is invested. But for professional fund managers, like those at Santander Asset Management UK, it can help to manage risk and inform their decision making on which investments to back.

Here we summarise three themes that have particular and wide-ranging relevance today.

1 The ageing population

In 2019 one in 11 people worldwide was over the age of 65. It's projected to reach one in six by 2050. We're living for longer in old age too. The proportion of adult life spent beyond age 65 has risen from less than a fifth in the 1960s to at least quarter in most developed countries today.[3]

The ageing population affects a number of sectors and the prospects for companies in them. For example, pharmaceutical companies are developing drugs for age-related diseases such as cancer and Alzheimer's, while medical devices companies are making products from MRI scanners to diabetes apps. The beauty sector and its ingredient and packaging suppliers are meeting demand for anti-ageing products. Food companies are

3 https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Highlights.pdf

developing new lines of food tailored to older bodies, property developers are investing in new care facilities and financial services providers are working on products and services for those staying invested in retirement.

2 Climate change

The ongoing shift from fossil fuels to renewable energy has many implications, from the future of energy companies and car makers to innovation in climate capture technologies, including machines that can suck carbon dioxide from the atmosphere, and low carbon transport and infrastructure.

The ageing population feeds into this too, given growing pressure on the world's natural resources. In fact, climate change is a theme that affects every sector in one way or another. All industries use some form of energy and have some level of carbon exposure, with the risks and opportunities varying between sector and company.

Considering what companies are doing (or not) to help manage climate change is also part of a broader move towards investing in a way that promotes good environmental, social and governance practices. Many people now want to see their money invested in socially responsible companies that make a positive contribution to the world.

3 Artificial intelligence (AI)

This may seem less wide-ranging than climate change and the ageing population. But not only is there a clear link between the three themes, this is also one that affects our daily lives in ways that can be easy to forget.

AI is broadly about the use of programming and computer techniques for tasks normally requiring human intelligence. That includes decision making, pattern recognition, natural language, processing and visual perception.

AI has a very real impact on many of the products and services we use today. Feeding into the options we're given by services such as Netflix and Amazon, powering devices such as Fitbit apps and GPS systems, piloting planes and even undertaking medical procedures.

The possibilities are growing all the time and the race to develop more cutting-edge AI technologies is underway in virtually every sector. There's also an argument to suggest it helps to make companies more productive, flexible and efficient, particularly in areas such as healthcare and energy.

One theme to connect them all

If there's a theme that unites our big three trends, it's that in practice they reach deep into any investment portfolio. While we can't confidently predict exactly how they will shape the industries and companies of the future, we do know that all three themes will have a big impact on investments for years to come.

Let's be clear.
Is it cyclical or structural?

The performance of companies on the stock market can be influenced by different external factors. And these can often be grouped into one of two categories – cyclical or structural.

A cyclical factor is one related to the economic cycle and that in time may be expected to change and reverse. A structural factor is more profound and often irreversible in its impact.

Themes like climate change, the ageing population and artificial intelligence are all structural, given they are largely independent of the economic cycle and not generally sensitive to events and downturns.

Article provided by Santander Asset Management UK for Santander investment customers.

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